II. CONCLUSIONS AND RECOMMENDATIONS

A. Solving the Immediate $ 90 Million Challenge

As discussed above, a combination of factors including unprecedented increases in construction costs caused by world-wide demand and recent hurricanes and federal cash-flow challenges resulting from the recently-passed federal transportation funding bill required that MaineDOT defer transportation projects worth about $130 million, representing about 20 percent of the projects in MaineDOT's Work Plan. After reducing this deferral amount by the $30 million worth of projects that are undeliverable in this biennium, and by the $10 million in engineered savings identified by the Value Engineering Subgroup, this means the scope of the immediate challenge is about $90 million.

To address this immediate need, on January 25, 2006, the bi-partisan Governor's Capital Transportation Working Group unanimously voted to recommend the following.

1. Invest $90 million.

   To partially restore the projects deferred in the fall of 2005, invest an additional $90 million in MaineDOT's capital program.

2. Use a 1/3 Cash, 2/3 Bonding Ratio.

   To provide a reasoned and fiscally prudent balance between cash and bonding, while recognizing that the long-term nature transportation infrastructure requires a long-term investment strategies, the funding should consist of one third (1/3) from cash, two thirds (2/3) from bonding. To raise the $90 million, this obviously means $30 million from cash resources, and $60 million from bonding.

3. Cash Resources: $30 million.

   About $15 million in Highway Fund Resources are anticipated to be available for this effort. This amount has two primary components. First, a one-time amount of $10-11 million will be available reflecting Personal Service savings and other amounts related to MaineDOT efficiency efforts and other factors. The Transportation Committee consistently has a long-standing policy that all Personal Service savings should be directed to MaineDOT's capital program. Second, the Revenue Forecasting Commission has revised Highway Fund revenue forecasts upward by an amount exceeding $4 million which should be available to dedicate to capital needs.

   The balance of the cash resources required - $15 million – must come from the General Fund. The Group understands the pressures on the General Fund, but this contribution was imperative to reach bi-partisan consensus. The Group encourages bi-partisan and creative discussions aimed at reaching this amount, and understands that doing so may be contingent upon General Fund budget proceedings, budget priorities, revenue re-forecasting, and the availability of lapsing balances and cascades.

4. Bonding: $60 million.

Given the long-term nature of investment in transportation infrastructure, and given low recent bonding levels, the Working Group strongly believes that bonding in the amount of $60 million for this purpose is prudent and reasonable. There are three types of bonds that are available to meet this need.

- GARVEE Bonds. GARVEE bonds, an acronym for Grant Anticipation Revenue Vehicle, are an accepted transportation financing tool. As detailed in the research paper prepared by the Maine Turnpike Authority attached as Appendix C, twenty-two (22) states have authorized GARVEE issuances collectively totaling over $9.7 Billion. Maine is one of those states, having authorized a modest $48.4 million (the lowest amount in the nation) for the replacement of the Waldo-Hancock Bridge. This single issuance will result in a low maximum federal debt-to-revenue ration of about 3.2 % in 2007, well below accepted levels of 20%.

  GARVEE bonds are secured solely by future funds received from the Federal Highway Administration. As such, they do not constitute a pledge of the full faith and credit of the State. Accordingly, this tool is available to address the challenge this spring after receiving approval by the Legislature and the Governor. The Group strongly recommends that this tool should be dedicated only for projects to reconstruct, rehabilitate, and/or replace existing bridges and existing arterial and major collector highways, and not for new highways or bridges on a new location. That is, this tool should be used carefully to address existing needs, as opposed to new capacity.

  GARVEE bonding can be utilized using at least two approaches. One approach is to authorize a one-time issuance in a set amount. The Working Group recommends this approach as part of the bonding solution for the immediate $90 million challenge. (See Bonding Recommendation discussion below.) Another approach would be general enabling legislation that allows GARVEE bonds to be issued until a statutory federal debt-to-revenue cap is reached – say 10%. General enabling legislation would allow the flexibility to manage funding uncertainties like those that gave rise to this Working Group. The Working Group recommends that this latter approach be evaluated as part of the long-term funding solutions effort. A chart attached as Appendix D shows various options for GARVEE bond issuances.

- General Obligation Bonds**.** To date, this is the traditional tool for bonding for transportation investment in Maine. The Group noted that the amount of General Obligation bonds approved for the current biennium is at historic lows. As the graph and related spreadsheet attached as Appendix E illustrates, Maine voters have approved an average of $179 million in bonds (in 2005 inflation adjusted dollars) each biennium over the last 20 years. Voters have approved only $74 million thus far in this biennium. General Obligation Bonds are issued by the State and secured by a pledge of Highway Fund or General Fund revenue. Accordingly, they constitute a pledge of the full faith and credit of the State and require a 2/3rds vote of the Legislature and voter approval.

- State Revenue Bonds**.** Another option could be revenue bonds issued by a third party – the Maine Municipal Bond Bank or the Maine Turnpike Authority – and secured by a dedicated revenue stream from the Highway Fund, the General Fund, or some other dedicated or appropriated funding source. These bonds do not constitute the pledge of the full faith and credit of the State, and therefore could be utilized this spring with Legislative and gubernatorial approval. A chart attached as Appendix D illustrates the amount of bonds that could be issued depending upon the size of the annual dedicated revenue stream and bond term.

5. Bonding Proposal.

Again, the Group encourages and expects creative and wide-ranging debate as to how to constitute this $60 million bond component. As a starting point, the Group proposed the following for the purpose of generating discussion.

- GARVEE: $ 40 million. As the explanation for the deferral attached as Appendix A demonstrates, about 40% of the cause of the deferral is related to federal cash flow challenges. Accordingly, the Group believed a federal solution that can be used only for transportation – GARVEE – should be about 40% of the solution. GARVEE bonds also has the added benefit of being capable of implementation this spring, a required goal to prevent more projects from becoming undeliverable this biennium. Sample legislation for a one-time GARVEE issuance of $40 million is attached as Appendix F.

- Other Bonding: $20 million. The Working Group proposes that additional bonding in the amount of $20 million be authorized. The following bonding options should be considered (in descending order of preference).

    - General Obligation Bond. Although surely to engender some debate, a General Obligation bond secured by Highway Fund revenue should be considered. This proposal is predicated upon the assumption the $15 million in General Fund cash is secured. If not, securing the bond with General Fund revenues should be considered.

    - State Revenue Bonds.

    - Additional GARVEE Bonding.

These funding recommendations are summarized in the spreadsheet attached as Appendix G.

B. Addressing the Long-term Funding Challenge and the "Infrastructure Deficit"

Throughout the proceedings of the Working Group and the Subgroups, a persistent theme emerged: capital transportation needs are chronically under-funded, and that new funding strategies will be required to prevent the need for similar Working Groups in the future. By way of illustration, in preparation of its Capital Work Plan, MaineDOT reported that $2 billion in transportation needs were identified throughout the State's transportation system in this biennium alone. (Note this figure was calculated before recent cost increases.) The Capital Work Plan ultimately funded less than one-third of these needs, leaving over $1.3 billion in unmet transportation need - the "infrastructure deficit". **It is the unanimous finding of the Working Group that the current transportation funding model is neither adequate nor sustainable for funding Maine's transportation infrastructure now or in the future.**

Accordingly, the Group unanimously voted to recommend to the Governor that some group – this Working Group or some other similarly constituted group – continue to work toward identifying alternative funding options to meet this long-term challenge.

Existing on-going efforts will aid in such an analysis. The Transportation Committee previously charged MaineDOT, along with the Maine Turnpike Authority, to prepare "a report containing research findings and recommendations regarding strategies to address the State's transportation infrastructure deficit including all modes of travel." (PL 2003, Chapter 690.)

In 2005, MaineDOT and the Maine Turnpike Authority launched "Transportation 2025" -- an initiative aimed at accomplishing three primary objectives:

- Assess the State's Transportation needs over the next twenty-years
- Define the "Infrastructure Deficit" (Including all modes of travel)
- Conduct research on the sustainability of the motor fuels tax as the primary source of funding for the State's Highway & Bridge transportation programs.

(A detailed outline of "Transportation 2025" is attached as Appendix H.)

The report required by PL 2003, Chapter 690 will be delivered to the Governor and Transportation Committee in February of 2006. The extended Working Group could utilize this report as a foundation to develop a long-range comprehensive funding strategy for transportation investment in Maine. The Working Group believes that given the long-term nature of capital transportation investment, this challenge must be addressed soon in order to achieve the mission of responsibly providing a safe and efficient transportation system that supports economic opportunity and quality of life.